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## BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER  
Chairman  
WILLIAM A. MUNDELL  
Commissioner  
MARC SPITZER  
Commissioner  
MIKE GLEASON  
Commissioner  
KRISTIN K. MAYES  
Commissioner

Arizona Corporation Commission

DOCKETED

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APPLICATION TO RESET THE  
SOUTHWEST GAS CORPORATION  
DEMAND SIDE MANAGEMENT  
ADJUSTOR RATE FOR MAY 2006

DOCKET NO. G-01551A-04-0876

DECISION NO. 68649ORDER

Open Meeting  
April 4 and 5, 2006  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Southwest Gas Corporation ("Southwest") is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.

2. Commission Decision No. 60352 (August 1997) created the Demand Side Management ("DSM") adjustor mechanism, whereby Southwest files by the end of January each year with Staff to reset the DSM adjustor rate on April 1st of each year.

3. Pursuant to the DSM adjustor mechanism, Southwest filed a request with Staff on January 31, 2006, to reset the DSM adjustor rate.

4. Subsequently, the Commission issued its final decision on Southwest's general rate proceeding (Decision No. 68487, February 23, 2006), which now requires Commission approval of the annual revision to the DSM adjustor rate, increases DSM funding, and applies the DSM adjustor rate to all customer classes. These changes materially impact the DSM adjustor mechanism and require Southwest to make a new filing to adjust the DSM adjustor rate.

1           5.       On March 14, 2006, Southwest made a revised filing for Commission approval of  
2 the new DSM adjustor rate. Given the timing of the conclusion of the rate case in mid February,  
3 and Southwest's need to make a subsequent revised filing, the Commission, in Decision No. 68956  
4 (March 23, 2006), extended the application of the current DSM adjustor rate for one additional  
5 month, through the April 2006 billing cycle.

6           6.       Southwest's March 14, 2006 revised filing makes several adjustments to the  
7 previous January 31, 2006 filing, to reflect somewhat higher DSM spending in 2006, and  
8 Southwest also proposes several adjustments to how the DSM adjustor rate is administered.  
9 Southwest's two proposed changes to administration of the DSM adjustor rate are to apply the  
10 DSM adjustor rate to only residential customers in 2006 and adjust the DSM adjustor rate at the  
11 beginning of May every year, rather than just this year.

12          7.       Historically, the DSM adjustor rate has been applied only to residential customers,  
13 at least in part because historically the DSM programs were only residential programs. As part of  
14 the expansion of DSM programs in the recent Southwest rate case, there will now be significant  
15 residential and commercial DSM programs, so Decision No. 68487 expanded applicability of the  
16 DSM adjustor rate to the other customer classes.

17          8.       Southwest's rationale for applying the DSM adjustor rate to only residential  
18 customers for the 2006 reset is that the only current DSM programs are residential programs, and it  
19 will take awhile to design, receive Commission approval of, and implement the new residential  
20 and commercial programs.

21          9.       While Staff recognizes that for at least part of 2006, only the two existing  
22 residential programs will be in effect, the other programs will be implemented pursuant to  
23 provisions of Decision No. 68487, and the rate case order does specifically indicate that the other  
24 rate classes are to begin paying the DSM adjustor rate.

25          10.       Regarding shifting the annual reset date for the DSM adjustor rate from April to  
26 May for more than 2006, Staff does not believe that there is a compelling reason to make such a  
27 change. April has been the normal reset date since the DSM adjustor rate was implemented in  
28 1997. The recently concluded rate case retained the standard April implementation date and while

1 there is reason for a one-time exception in 2006 due to the timing of the rate case conclusion, Staff  
2 believes that generally the reset date is an issue most appropriately dealt with in rate proceedings  
3 as part of an overall consideration of the DSM adjustor mechanism.

4 11. While Staff is not necessarily opposed to changing the DSM adjustor rate reset date  
5 to May for every year, at this time Staff does not support any change in the reset date beyond the  
6 one-time, one-month shift adopted by the Commission recently due to the timing of the rate case  
7 conclusion.

8 12. Regarding the actual reset of the DSM rate, Southwest's March 14th application  
9 requests approval of a DSM adjustor rate of \$0.00246 per therm.

10 13. Subsequently, Southwest communicated to Staff that its March 14th application  
11 contained an error in that it double counts the \$50,000 of customer bill assistance in estimating its  
12 2006 DSM spending, resulting in a reduction in the estimated DSM spending in 2006 from  
13 \$800,000 to \$750,000. Southwest has indicated to Staff that it will make a further revised filing to  
14 correct for this error in calculation. On March 15, 2006, Southwest made an updated filing,  
15 correcting for the double counting error.

16 14. For purposes of calculating the DSM adjustor rate at this time, Southwest's  
17 estimated 2006 DSM spending reflects the proposed increases in spending for the two existing  
18 residential DSM programs, the Energy Advantage Plus and Low Income Energy Conservation  
19 programs. Southwest's estimate is somewhat conservative, given that Southwest is expected to  
20 begin incurring costs to design and implement the new residential and commercial DSM programs  
21 in 2006. However, for the purposes of setting the DSM adjustor, Staff believes Southwest's  
22 estimate is reasonable.

23 15. To the extent Southwest incurs some additional DSM costs beyond the projected  
24 \$750,000, these costs will be captured for recovery when the DSM adjustor rate is reset in 2007,  
25 since the DSM adjustor rate is reset each year.

26 16. Staff's calculations for the appropriate DSM adjustor rate in 2006 are similar to  
27 Southwest's, but differ in that they do not reflect a resetting of the DSM adjustor rate in May 2007

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as proposed by Southwest, and Staff's calculations apply the DSM adjustor rate across all of Southwest's full margin customer classes.

17. Under Staff's calculations, based upon an over-collected bank balance of \$339,578 as of the end of December 2005, the applicable DSM adjustor rate, applicable to all full margin customer classes from May 2006 through March 2007, would be \$0.00094 per therm.

18. By comparison, if Southwest's proposal to apply the DSM adjustor rate to only residential customers were adopted, Staff calculates that the DSM adjustor rate from May 2006 through March 2007 would be \$0.00211 per therm.

19. Staff has recommended approval of a DSM adjustor rate of \$0.00094 per therm for Southwest, applicable to all full margin customer classes, applicable to the May 2006 through March 2007 billing cycles.

#### CONCLUSIONS OF LAW

1. Southwest is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Southwest and over the subject matter of the matter.

3. The Commission, having reviewed Staff's Memorandum dated March 24, 2006, concludes that it is in the public interest to approve a DSM adjustor rate of \$0.00094 per therm for Southwest, applicable to all full margin customer classes, applicable to the May 2006 through March 2007 billing cycles.

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ORDER

IT IS THEREFORE ORDERED that a DSM adjustor rate of \$0.00094 per therm for Southwest, applicable to all full margin customer classes, applicable to the May 2006 through March 2007 billing cycles, be and hereby is approved.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

  
CHAIRMAN

  
COMMISSIONER

COMMISSIONER

COMMISSIONER

  
COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 12<sup>th</sup> day of April, 2006.

  
BRIAN C. McNEIL  
Executive Director

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

EGJ:RGG:lhml

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